

Message Text

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PAGE 01 REYKJA 01574 222205Z

64

ACTION EUR-12

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TO SECSTATE WASHDC PRIORITY 5003

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COMICEDEFOR

CINCLANT

C O N F I D E N T I A L REYKJAVIK 1574

FOR EUR/NE: ANNE PINKNEY

E.O. 11652: GDS

TAGS: EEWT IC UR

SUBJECT: POTENTIAL FOR PRESSURE IN GOI-USSR TRADE

1. TRADE BETWEEN ICELAND AND USSR (EXPRESSED IN \$ MILLION AND
PERCENT OF TOTAL ICELANDIC TRADE)

	1971	1972	1973
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ICELANDIC IMPORTS	14.97 (6.8)	13.54 (5.8)	22.71 (6.4)
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ICELANDIC EXPORTS	12.30 (8.2)	13.99 (7.3)	10.39 (3.6)
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DEFICIT (SURPLUS)	2.67	(.45)	12.32
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ICELANDIC IMPORTS FROM USSR ARE ESSENTIALLY OIL. ITS EXPORTS
TO USSR ARE MAINLY FISH AND TO A VERY MINOR EXTENT, WOOL SWEATERS
AND BLANKETS. IN 1972 AND 1973 USSR ACCOUNTED FOR 60 PERCENT
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PAGE 02 REYKJA 01574 222205Z

BY PRICE OF ICELAND'S IMPORTS OF PETROLEUM AND PETROLEUM

PRODUCTS.

2. QUESTION WHICH SURFACES PERIODICALLY IN ICELAND IS WHETHER USSR HAS ICELAND OVER A BARREL BECAUSE OF DEPENDENCE ON USSR OIL. AS TERMS OF TRADE HAVE RECENTLY SHIFTED, QUESTION IS NOT ONLY ONE OF DEPENDABLE OIL SUPPLY BUT ALSO OF LARGE AND GROWING TRADE GAP WITH USSR. NO LONGER IS EXCHANGE SIMPLY ONE OF FISH FOR OIL; ICELAND MUST NOW FUND SUBSTANTIAL HARD CURRENCY PAYMENTS AT TIME WHEN IT HAS SEVERE FOREIGN EXCHANGE PROBLEMS. WHILE USSR HAS RECENTLY AGREED TO SUBSTANTIAL INCREASE IN SWING BALANCE UNDER TRADE AGREEMENT, IT HAS TWICE THIS YEAR REQUESTED CASH PAYMENTS. UNDER CIRCUMSTANCES, ICELANDERS SEE POTENTIAL IN THEIR DEALINGS WITH USSR FOR BOTH POLITICAL AND ECONOMIC PRESSURES TO BE PUT ON THEM. WHETHER OR NOT SOVIETS WOULD ACTUALLY PLAN TO USE SUCH PRESSURES, ICELANDERS FEAR THEY MIGHT AND THUS ON OCCASION, TRIM THEIR SAILS ACCORDINGLY.

3. REINFORCING THIS CLIMATE OF OPINION WAS PROMINENT ICELANDIC COMMENTATOR WHO RECENTLY CLAIMED THAT TRADE WITH USSR HAD BEEN GENERALLY TO ICELAND'S BENEFIT AND THAT SOVIET PUBLICATIONS HAD CLAIMED THIS WAS INTENTION IN ORDER TO INFLUENCE ICELAND NOT TO "DRIFT TOO FAR WEST." OTHER COMMENTATORS HAVE CITED "POLITICALLY WELL-TIMED" FISH PURCHASES WHILE KEEPING GOI ON THE HOOK AS TO WHAT WILL BE DONE ABOUT OIL DEBT.

4. IN REACTION, ONE MP RECENTLY CLAIMED IT WAS IMPORTANT THAT ICELAND MAKE ARRANGEMENTS FOR OIL SUPPLIES FROM NORWAY TO ESCAPE POSSIBILITY OF POLITICAL BLACKMAIL. HOWEVER, MINISTER OF TRADE OLAFUR JOHANNESSEN, PROGRESSIVE PARTY CHAIRMAN AND PRIMIN IN THE LAST GOVT. CALLED ON ICELANDIC EXPORTERS TO "CULTIVATE" SOVIET MARKET TO HELP CLOSE TRADE GAP.

5. AN EXAMPLE OF HOW ICELANDERS MAY REACT TO THIS POTENTIAL FOR PRESSURE AROSE LAST DECEMBER-JANUARY WHEN SOVIETS REQUESTED TRANSIT PERMISSION FOR WHAT APPEARED TO BE AN EXCESSIVE NUMBER OF CIVIL AIRCRAFT IN CONNECTION WITH BREZHNEV'S VISIT TO CUBA. GOI WAS UNWILLING TO QUESTION THE NUMBERS ON GROUNDS SOVIETS MIGHT BE OFFENDED AND MIGHT CURTAIL OIL SHIPMENTS OR PRESS FOR CASH SETTLEMENT OF OIL DEBTS. THUS 24 AN -22 AIRCRAFT TRANSITED TO AND FROM CUBA.

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PAGE 03 REYKJA 01574 222205Z

6. BECAUSE ICELANDERS AT PRESENT SEE NO DEPENDABLE ALTERNATIVE OIL SUPPLY AND NO IMMEDIATE POSSIBILITY FOR IMPROVED TRADE TERMS, THEY ARE LIKELY TO CONTINUE TO FEEL INCREASED VULNERABILITY TO SOVIET POLITICAL AND ECONOMIC PRESSURES AND WILL ACT ACCORDINGLY.
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